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STATE FOR WHA/BSC MDASCHBACH, WHA/EPSC FCORNEILE

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SUBJECT: BOOSTING BIOFUELS IN PARAGUAY

¶1. (SBU) SUMMARY: A public-private working group approached the Embassy December 23 to outline an ambitious plan to dramatically increase Paraguayan sugarcane-based ethanol production. They asserted a five-fold increase in five years is quite feasible, if more favorable access to the U.S. market were apparent to help offset high transport costs. Such plan to increase ethanol production by Paraguay -- already the world's fourth-largest soy producer -- could have a positive impact on President Lugo's job creation imperative, and on USG efforts to promote the use and production of multiple sources of renewable energy supplies. **END SUMMARY.**

¶2. (SBU) A seemingly cohesive public-private working group on biofuels met the Charge and Econoff December 23 to discuss Paraguay's plans to grow the sector. Led by Vice Minister of Energy Carlos Buttner, officials from the Ministry of Foreign Affairs, the Ministry of Agriculture, the Ministry of Commerce and Industry, and key private sector representatives presented an ambitious plan to increase Paraguay's sugarcane-based ethanol production, and solicited support to gain duty-free market access to the U.S.

¶3. (SBU) The participants stated there are currently 7 ethanol-producing plants in Paraguay with a combined capacity of 120 million liters per year. Given domestic regulations that require on average a 24 percent ethanol-blend for gasoline, all of the current production is locally consumed. Production in 2008 reached 80 million liters, compared to 60 million liters in 2007. The projection for 2009 is production of 90 million liters, and a local demand of roughly 100 million liters.

¶4. (SBU) Participants explained that Paraguay seeks to become a net exporter of sugar-based ethanol by 2013, and they see the U.S. as the main market. Two projects with a combined capacity of 50 million liters per year are expected to begin operations in 2010, and several existing plants are looking to expand capacity to a combined total of 470 million liters per year by 2013. The plan described by participants is that Paraguay reaches a capacity of 590 million liters per year by 2013 to supply local demand (projected at 250 million liters) and export the difference. The total investment needs, mostly directed at the production plants, are estimated at about 500 million USD. Private sector representatives remarked that they have been slow to invest because of uncertainty about market access opportunities. Participants claimed that Paraguay's enormous potential is constrained by high transport costs, and the current U.S. tariff structure prices them out of our market. They asserted that Paraguay by 2013 could realistically export to the U.S. about 200 million liters, if more favorable market access conditions were provided. Participants indicated that Paraguay's position is in support of the diversification of ethanol-producing

countries to make the fuel a common and widely available commodity -- a process referred to as "commoditization". They emphasized that over 80,000 new jobs in the ethanol production-chain would be the direct social benefit of being able to export to the U.S.

¶ 15. (SBU) The Charge discussed USG initiatives that can support Paraguay's plans. He described the Overseas Private Investment Corporation (OPIC) initiative to support renewable energy projects, including biofuels, and the opportunities for technical exchanges outlined in the bilateral Memorandum of Understanding on biofuels, currently awaiting the setting of a date for signature by the Ministry of Foreign Relations.

¶ 16. (SBU) COMMENT: The mixed public-private sector working group appeared organized, knowledgeable, and technically competent. In fact, several of the participants would make fine candidates for the country-specific International Visitor Leadership Program on biofuels planned for Paraguay in 2009. The private sector clearly is intent in scaling up production if market access opportunities are sufficient to offset high transport costs. Though ambitious, if the plan to boost Paraguay's ethanol production is carried out it would yield significant economic and social returns, particularly in the all important job creation imperative. Paraguay's plan and its expressed support for the "commoditization" of ethanol could also positively contribute to USG efforts to promote the use and production of renewable energy supplies by multiple sources. END COMMENT.

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